

AR17

ANNUAL REPORT

1964



INTERPROVINCIAL PIPE LINE COMPANY



1964 PROGRESS IN BRIEF

FINANCIAL

| | 1964 | Change from 1963 |
|---------------------------|--------------|---------------------|
| Revenues - - - - - | \$74,983,000 | up 7.1% |
| Earnings - - - - - | \$19,202,000 | up 8.0% |
| per share - - - - - | \$3.77 | |
| Dividends - - - - - | \$16,787,000 | up 6.5% |
| per share - - - - - | \$3.30 | |
| Taxes | | |
| income and other - - - | \$27,024,000 | up 8.7% |
| per share - - - - - | \$5.31 | |
| Additions to Plant* - - - | \$ 7,661,000 | |
| Long term Debt - - - - | \$90,992,000 | down 9.1% |

OPERATING

| | | |
|--------------------------------|---------|---------|
| Deliveries (barrels per day) - | 504,000 | up 7.4% |
| Barrel miles (millions) - - | 221,691 | up 6.7% |
| Refineries served - - - - | 26 | |

*1964 Additions

| | |
|----------------------------|--------|
| 34" pipe (miles) - - - - - | 53 |
| pump stations - - - - - | 2 |
| horsepower - - - - - | 16,820 |

Present System

| | |
|------------------------------|---------|
| miles of pipe - - - - - | 3,481 |
| number of stations - - - - - | 35 |
| horsepower - - - - - | 245,410 |

53 miles of 34" pipe, costing \$100,000 a mile, were added in 1964.

1964

INTERPROVINCIAL PIPE LINE COMPANY

APR 15 1965

DIRECTORS

D. H. Cooper
T. S. Johnston
T. F. Moore
W. Harold Rea
D. R. Walker

J. W. Hamilton
J. Willis Morgan
R. D. Parker
R. H. Reid

OFFICERS

President - - - - - T. S. Johnston
Executive Vice-President - - - - - John F. Fairlie
Vice-President - - - - - D. R. Walker
Vice-President - - - - - J. W. Hamilton
Secretary-Treasurer - - - - - J. Blight
General Counsel - - - - - R. B. Burgess

HEAD OFFICE

10830 Jasper Avenue - - - - - EDMONTON, ALBERTA

EXECUTIVE OFFICE

7 King Street East - - - - - TORONTO, ONTARIO

TRANSFER AGENTS

The Royal Trust Company - - - - - TORONTO, MONTREAL, HALIFAX,
WINNIPEG, EDMONTON, VANCOUVER
Chemical Bank New York Trust Company - - - - - NEW YORK

REGISTRARS

Montreal Trust Company - - - - - TORONTO, MONTREAL, HALIFAX,
WINNIPEG, EDMONTON, VANCOUVER
Bank of Montreal Trust Company - - - - - NEW YORK

Annual General Meeting - - - - - 2.30 p.m., April 14, 1965,
Royal York Hotel, Toronto, Ontario

Interprovincial supplied the vast industrial complex at Sarnia, Ontario with some 57 million barrels of petroleum in 1964.



REPORT TO SHAREHOLDERS

1964 was a year of important progress for Interprovincial and for the Canadian oil industry. The demand for petroleum products in Canada increased by almost 5% and production of liquid hydrocarbons reached new peaks, attaining the national oil policy target of some 850,000 barrels per day.

Interprovincial played a large part in these achievements by providing economical and dependable transportation for crude oil supplied to Canadian refineries between Edmonton and Toronto. In this area are located about half of Canada's population and half of its refinery capacity. The company also delivered significant volumes of crude to certain United States refineries along its route in Minnesota, Wisconsin, Michigan, Ohio and New York. By these activities Interprovincial provided an outlet for 60% of the total Canadian liquid hydrocarbons which were produced.

The volume of petroleum transported amounted to 184 million barrels, one-quarter of which was delivered to United States refineries. The growth in throughput of 7.4% over 1963 was in keeping with earlier forecasts. With average deliveries in excess of 500,000 barrels per day, Interprovincial on a barrel mile basis continued to hold its position as the largest crude oil carrier on this continent.

The company continued its policy of expanding facilities to ensure that at all times the pipe line system is capable of providing transportation for shippers in keeping with industry and national objectives. By careful long term planning, the company has been successful in committing only the minimum investment for required service at any time. As a result, shareholders have experienced satisfactory earnings over the years and shippers have benefited from minimum transportation costs.

Net earnings amounted to \$19.2 million or \$3.77 per share. This was an increase of 8% over 1963 earnings of \$3.50

per share. These earnings permitted an increase in the dividend so that total 1964 payments were \$3.30 per share compared with \$3.10 in 1963.

Interprovincial continued its policy of sharing progress with its shippers. Effective December 1, 1964 certain changes were made in its tariffs, resulting in an average reduction of 2½% in the shippers' cost per barrel transported. Included in this reduction was the elimination of a supplementary charge for allowance oil to cover handling and evaporation losses. These tariff revisions had little effect on 1964 earnings.

Looking back over the fifteen years since Interprovincial's inception, the sharing of progress and expansion between shareholders and shippers has permitted substantial contributions of the greatest significance to the development of the Canadian oil industry. From the beginning of operations to the present 500,000 barrels per day delivery level, the original investment has increased over four times to \$320 million. Over the period, tariffs have been reduced substantially to where the charge for moving a barrel of oil one mile has been almost halved. Studies based on published data indicate that Interprovincial is one of the lowest cost pipe line operators on the continent in a highly competitive and evolving industry.

By this policy, the long term interest of shareholders is furthered, ensuring that the company plays the largest possible role in facilitating the outlet for domestic crude in both Canadian and United States markets.

FINANCIAL REVIEW

The Consolidated Financial Statements combine the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These include Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc. and its subsidiary, Pipe Line Service Company, Inc. in the United States.

EARNINGS

Consolidated net earnings for the year were \$19,201,652, which was an increase of \$1,442,050 or 8.0% over 1963.

INCOME AND EXPENSES

Transportation revenue was \$74,667,554, an increase of \$5,031,271 or 7.2% over 1963. This increased revenue resulted from a 7.4% increase in deliveries.

Operating and administrative expenses of \$14,278,341 were 8.2% over the previous year. The major part of this increase was for fuel and electric power required to achieve the increased throughput and larger movement of heavier type crudes.

TAXES

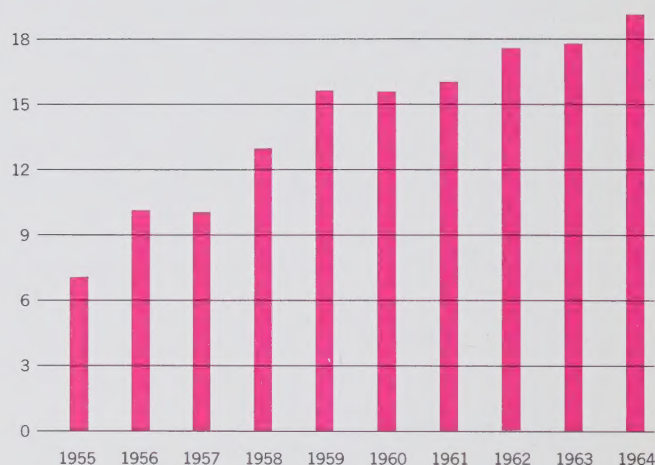
In keeping with business generally, the company carries a heavy tax burden which in 1964 amounted to \$27,023,524, equivalent to \$5.31 per share. Of this amount taxes, other than income taxes, were \$4,240,524, equivalent to 12.9% of all expenses, exceeding 1963 by 16.3%. This increase reflects the constantly growing need of provincial, state and municipal governments for additional revenues.

In the United States the federal corporation income tax rate was reduced from 52% to 50% and will be further reduced to 48% in 1965.

It should be noted that the earnings of the United States subsidiary are subject to a 15% United States withholding tax when these earnings are transferred to Canada in the form of dividends to Interprovincial Pipe Line Company.

In Note 2 of "Notes to Financial Statements" entitled "Provision for Income Taxes" the basis for the long standing dispute with Canadian tax officials is set forth. This relates to a claim for a foreign tax credit for the 15% tax withheld at source and paid to the United States Government on bond interest received from the United States subsidiary.

EARNINGS (millions of dollars)



Welders join 80-foot lengths of 34" pipe during 1964 construction.



DIVIDENDS

Regular quarterly dividends were paid at the rate of 80 cents per share on March 2 and June 1 and 85 cents per share on September 1 and December 1, bringing the total to \$3.30 per share compared with \$3.10 in 1963. Total dividends in 1964 were \$16,786,590, amounting to 87.4% of the year's earnings.

STOCK SUBDIVISION

During the year steps were taken to subdivide the company stock into five shares for each share outstanding. Your Directors felt that in the interest of wide participation in an important Canadian company it was desirable to take steps to place the stock within the reach of all investors. This action was approved by shareholders on July 15. Unfortunately, as a result of factors beyond the company's control, the necessary authority from Parliament which is required by a Special Act company had not been received at the year end. At that time the Bill requesting the subdivision had received the approval of the Senate and first reading in the House of Commons after which Parliament adjourned.

CAPITAL EXPENDITURES

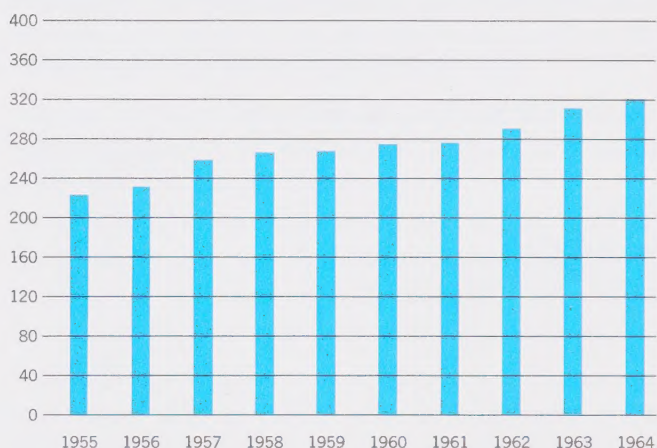
A total of \$7.7 million was expended during the year on capital additions and improvements to the carrier system. The investment at cost in fixed assets at the end of 1964 and 1963 was as follows:

| | 1964 | 1963 |
|---|----------------------|----------------------|
| Land - - - - - | \$ 711,684 | \$ 722,430 |
| Right-of-way - - - - - | 3,914,738 | 3,899,156 |
| Crude oil pipe line - - - | 236,780,168 | 231,324,619 |
| Pumping equipment, buildings and tanks - - | 77,122,582 | 76,247,765 |
| Incomplete construction - | 1,494,244 | 476,020 |
| | <u>\$320,023,416</u> | <u>\$312,669,990</u> |

CAPITAL STOCK

In 1964 there was a significant increase in both the number of shareholders and in shares owned by Canadian resi-

INVESTMENT plant and equipment — (millions of dollars)



A skilled operator at Superior, Wisconsin controls 10 pumping stations over some 600 miles.



dents. The 4,300 additional shares issued in 1964 resulted from the exercising of options under the company's

Incentive Stock Option Plan. This Plan terminated April 1, 1964.

DISTRIBUTION OF CAPITAL STOCK

| | 1964 | | | | 1963 | | | |
|---------------------------|---------------|------------|------------------|------------|---------------|------------|------------------|------------|
| | Shareholders | % | Shares | % | Shareholders | % | Shares | % |
| Canada - - - - - | 12,617 | 89 | 4,464,917 | 88 | 11,167 | 88 | 4,410,889 | 87 |
| United States - - - - - | 1,343 | 10 | 563,647 | 11 | 1,429 | 11 | 616,870 | 12 |
| Other Countries - - - - - | 167 | 1 | 58,718 | 1 | 161 | 1 | 55,223 | 1 |
| | <u>14,127</u> | <u>100</u> | <u>5,087,282</u> | <u>100</u> | <u>12,757</u> | <u>100</u> | <u>5,082,982</u> | <u>100</u> |

WORKING CAPITAL

From the "Consolidated Statement of Source and Application of Funds" it will be noted that Interprovincial continued to show a deficit working capital position at the year end. By utilizing its sizable monthly cash flow, augmented when required by short term borrowings, the

company was able to most economically meet its financial requirements. The company is in a position to obtain long term financing on attractive terms if it should become desirable.

No long term borrowing has been undertaken since 1954. Over the last ten years, by using resources generated from annual depreciation, deferred income taxes, investment tax credits and retained earnings, capital additions to plant of over \$101 million have been made. At the same time, long term debt has been reduced from \$158 million to \$91 million.

SOURCE OF CRUDE OIL RECEIPTS (*millions of barrels*)



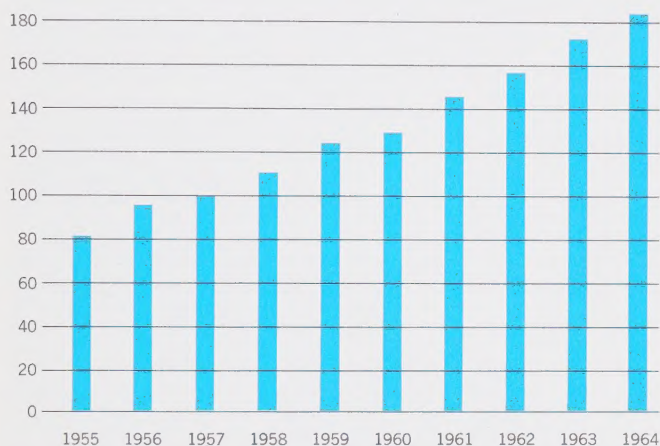
OPERATIONS

During the year the volume of crude petroleum received into the system amounted to 184.7 million barrels, an increase of 6.1% over 1963.

RECEIPTS (*Millions of Barrels*)

| | 1964 | 1963 |
|------------------------|--------------|--------------|
| Alberta - - - - - | 99.3 | 99.1 |
| Saskatchewan - - - - - | 79.2 | 69.5 |
| Manitoba - - - - - | 4.6 | 4.0 |
| North Dakota - - - - - | 1.6 | 1.5 |
| | <u>184.7</u> | <u>174.1</u> |

CRUDE OIL DELIVERIES (millions of barrels)



A laboratory technician maintains quality control of 22 different types of oil carried in the system.



Most of the additional volume came from Saskatchewan resulting from increased availability and demand and the economic advantage of the province's proximity to the United States and eastern Canadian refineries.

Average deliveries during the year exceeded 500,000 barrels per day with an all time peak record being established in December of 538,500 barrels per day.

The growth in barrel miles of 6.7% was slightly less than the growth in deliveries. This reflects a small decrease in the length of the average pipe line haul, primarily due to the substantial increase in Saskatchewan production.

Approximately one-half of the increase in deliveries was made to the Ontario market with the major part of the balance going to Minnesota where refinery capacity has been recently expanded.

DELIVERIES (Millions of Barrels)

| | | 1964 | 1963 |
|----------------|-----------|--------------|--------------|
| Western Canada | - - - - - | 33.1 | 32.2 |
| United States | - - - - - | 46.9 | 41.8 |
| Ontario | - - - - - | 104.5 | 97.8 |
| | | <u>184.5</u> | <u>171.8</u> |

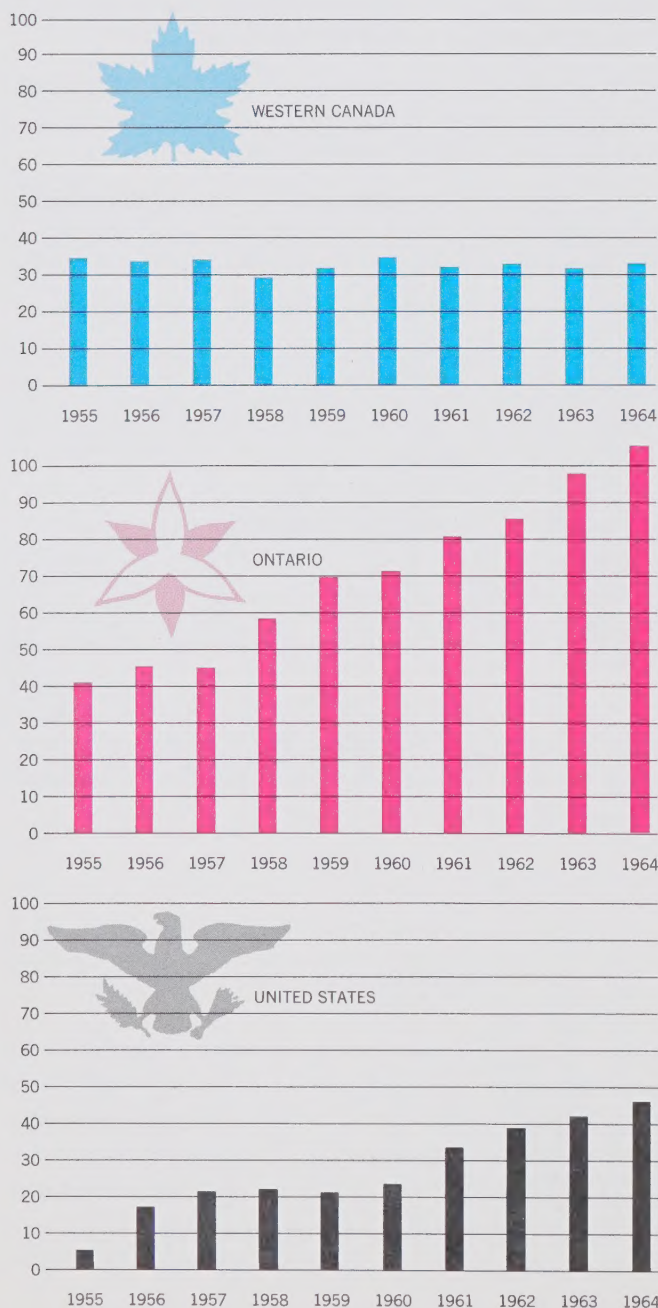
North Dakota crude oil received at Clearbrook, Minnesota, was delivered to refineries located in the Superior, Wisconsin area.

CONSTRUCTION

The capital expenditure of \$7.7 million provided adequate facilities to enable the company to meet the forecast 1965 increase in market requirements.

Some 53 miles of 34" pipe were laid in Manitoba. In addition, two 5,000 horsepower electric powered pump stations were constructed in Ontario between Sarnia and Toronto. These stations replace temporary units and are remotely controlled from Sarnia. One 2,500 horsepower electric pumping unit was installed in Manitoba and two 2,000 horsepower diesel pumping units were installed in Minnesota.

CRUDE OIL DELIVERIES (millions of barrels)



The company's program of automation was continued and affected a number of stations and tank farm operations. Interprovincial is, in relation to its investment, a small employer. The company's personnel are highly skilled in their duties and the number of employees affected by automation has been small. Automation's importance is in achieving a more economical operation through the most efficient use of capital and facilities.

The pipe line system now consists of two complete lines between Edmonton and Superior, Wisconsin, a single 30" line between Superior and Sarnia, and a 20" extension from Sarnia to Toronto with a 12" branch to Buffalo. In addition, 40% of the distance between Regina and Superior has been paralleled with 259 miles of 34" pipe. It is expected that a third complete line will ultimately extend from Edmonton to Superior.

While having a number of lines contributes to the complexity of operation, the system is a most effective and economical one in providing low cost transportation and flexibility to move many crudes of widely differing characteristics. Also, the company is in a position to respond quickly and at minimum cost to any logical requirements for increased service.

FORECAST CONSTRUCTION — 1965

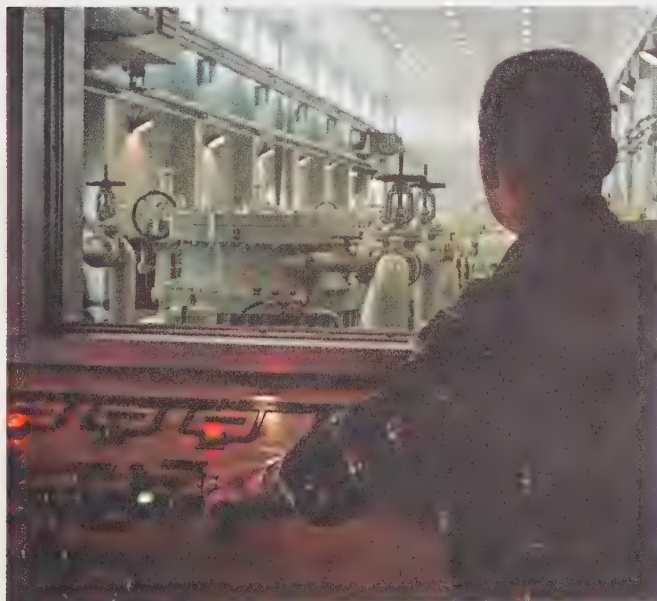
Further growth in demand for Canadian liquid hydrocarbons is forecast for 1966, reflecting a continuing high level of economic activity. To meet this requirement, substantial additions will be made to the pipe line system in 1965. Construction will include 72 miles of 34" pipe, 49 miles of which will be laid in Saskatchewan and 23 miles in North Dakota and Minnesota. Additional pumping capacity will be installed at two stations in Manitoba and one in Minnesota. A new pump station may be built in the upper peninsula of Michigan to further increase the capacity of the 30" line between Superior and Sarnia. The cost of this program is currently estimated at \$12.8 million.

The capacity of the various sections of the system upon completion of 1965 construction will be as follows:



Telephone and radio communication is vital to pipe line operation.

In pumping oil to market Interprovincial uses 245,000 horsepower.



| | | |
|---------------------|-----------|-----------------------|
| Edmonton-Regina | - - - - - | 364,000 bbls. per day |
| Regina-Cromer | - - - - - | 428,000 bbls. per day |
| Cromer-Gretna | - - - - - | 575,000 bbls. per day |
| Gretna-Clearbrook | - - - - - | 543,000 bbls. per day |
| Clearbrook-Superior | - - - - - | 533,000 bbls. per day |
| Superior-Sarnia | - - - - - | 434,000 bbls. per day |
| Sarnia-Port Credit | - - - - - | 220,000 bbls. per day |
| Westover-Buffalo | - - - - - | 36,000 bbls. per day |

PERSONNEL AND WAGES

Interprovincial's employees in Canada and the United States are represented by councils of employees and management. Wage increases were instituted during the year in keeping with the wage patterns which developed in the Canadian and United States oil industries. In addition, certain changes in benefit plans were made to meet prevailing industry standards.

Management wishes to express its appreciation of the enthusiastic and conscientious performance of all employees, which contributed much to the success of the company in 1964.

BOARD CHANGES

Changes occurred in the Board of Directors during the year. Mr. C. E. Carson resigned after almost fifteen years as a Director of the company and was replaced by Mr. D. H. Cooper, a Director of Imperial Oil Limited. Mr. E. D. Loughney resigned to accept the position of Senior Vice-President of Gulf Oil Corporation and Mr. J. Willis Morgan, Vice-President of The British American Oil Company, Limited, was elected to the Board in his place.

Both Mr. Carson and Mr. Loughney made important contributions to the success of Interprovincial during their tenure.

T. J. Schuster

President

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS*(expressed in Canadian currency)*

| <i>Source of funds:</i> | <i>For the years ended December 31</i> | |
|---|--|----------------------------|
| | <u>1964</u> | <u>1963</u> |
| Net earnings for the year - - - - - | \$19,201,652 | \$17,779,602 |
| Add: Non-cash charges and (credits) to earnings— | | |
| Depreciation - - - - - | 10,174,196 | 9,547,620 |
| Deferred income taxes - - - - - | 1,714,430 | 1,741,162 |
| Deferred investment tax credit (net) - - - - - | (141,565) | 1,333,838 |
| Other - - - - - | 39,839 | 40,729 |
| Funds provided from operations - - - - - | 30,988,552 | 30,442,951 |
| Capital stock issued - - - - - | 187,525 | 122,575 |
| | <u>31,176,077</u> | <u>30,565,526</u> |
| <i>Application of funds:</i> | | |
| Dividends paid - - - - - | 16,786,590 | 15,755,207 |
| Additions to carrier system - - - - - | 7,661,468 | 23,452,727 |
| Long term debt retired or included in current liabilities - - - - - | 9,081,287 | 8,305,380 |
| Other transactions (net) - - - - - | 161,028 | (201,128) |
| | <u>33,690,373</u> | <u>47,312,186</u> |
| <i>Decrease in working capital - - - - -</i> | <i>2,514,296</i> | <i>16,746,660</i> |
| <i>Working capital January 1 (deficit) - - - - -</i> | <i>(16,057,395)</i> | <i>689,265</i> |
| <i>Working capital deficit December 31 - - - - -</i> | <u><i>\$18,571,691</i></u> | <u><i>\$16,057,395</i></u> |

CONSOLIDATED STATEMENT OF EARNINGS

(expressed in Canadian currency)

| | <i>For the years ended December 31</i> | |
|---|--|---------------------|
| | 1964 | 1963 |
| <i>Income:</i> | | |
| Transportation revenue - - - - - | \$74,667,554 | \$69,636,283 |
| Other income - - - - - | 315,395 | 362,440 |
| | <u>74,982,949</u> | <u>69,998,723</u> |
| <i>Expenses:</i> | | |
| Operating and administrative expenses - - - - - | 14,278,341 | 13,193,673 |
| Taxes, other than income taxes - - - - - | 4,240,524 | 3,646,233 |
| Provision for depreciation - - - - - | 10,174,196 | 9,547,620 |
| Interest on long term debt - - - - - | 4,012,201 | 4,253,002 |
| Loss on foreign exchange (Note 6) - - - - - | 293,035 | 372,593 |
| | <u>32,998,297</u> | <u>31,013,121</u> |
| <i>Earnings before income taxes - - - - -</i> | <u>41,984,652</u> | <u>38,985,602</u> |
| <i>Provision for income taxes (Notes 2, 3 and 4):</i> | | |
| Canada - - - - - | 11,222,000 | 10,557,000 |
| United States - - - - - | 11,561,000 | 10,649,000 |
| | <u>22,783,000</u> | <u>21,206,000</u> |
| <i>Net earnings for the year - - - - -</i> | <u>\$19,201,652</u> | <u>\$17,779,602</u> |
| <i>Net earnings per share - - - - -</i> | <u>\$3.77</u> | <u>\$3.50</u> |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(expressed in Canadian currency)

| | <i>For the years ended December 31</i> | |
|---|--|---------------------|
| | 1964 | 1963 |
| <i>Balance at January 1 - - - - -</i> | \$39,850,223 | \$37,825,828 |
| Net earnings for the year - - - - - | 19,201,652 | 17,779,602 |
| | <u>59,051,875</u> | <u>55,605,430</u> |
| Dividends - - - - - | 16,786,590 | 15,550,000 |
| <i>Balance at December 31 - - - - -</i> | <u>\$42,265,285</u> | <u>\$39,850,223</u> |

The accompanying notes are part of the financial statements.

CONSOLIDATED BALANCE SHEET *(expressed in Canadian currency)*

ASSETS

| | <i>As at December 31</i> | |
|--|--------------------------|----------------------|
| | 1964 | 1963 |
| <i>Current Assets:</i> | | |
| Cash - - - - - | \$ 542,573 | \$ 983,392 |
| Deposits with bondholders' trustees and banks for interest and sinking fund payments - - - - - | 739,703 | 795,159 |
| Short term investments, at cost which is equivalent to market - - - - - | 400,000 | 500,000 |
| Accounts receivable— | | |
| Transportation charges - - - - - | 4,577,698 | 3,876,451 |
| Other - - - - - | 175,174 | 178,807 |
| Inventories— | | |
| Crude oil, at quoted market price - - - - - | 392,600 | 77,674 |
| Materials and supplies, at cost - - - - - | 912,623 | 1,103,480 |
| Prepaid expenses - - - - - | 262,994 | 257,509 |
| | <u>8,003,365</u> | <u>7,772,472</u> |
| <i>Other Assets and Deferred Charges:</i> | | |
| Mortgages receivable - - - - - | 59,499 | 54,593 |
| Unamortized premium and expense on long term debt (net) - - - - - | 148,772 | 173,833 |
| Unamortized leasehold improvements - - - - - | 126,179 | 100,077 |
| Other deferred charges - - - - - | 370,406 | 203,974 |
| | <u>704,856</u> | <u>532,477</u> |
| <i>Fixed Assets:</i> | | |
| Carrier system and other physical properties, at cost - - - - - | 320,023,416 | 312,669,990 |
| Less—Accumulated depreciation - - - - - | 95,898,271 | 85,994,416 |
| | <u>224,125,145</u> | <u>226,675,574</u> |
| | <u>\$232,833,366</u> | <u>\$234,980,523</u> |



AUDITORS' REPORT

To the Shareholders of INTERPROVINCIAL PIPE LINE COMPANY:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1964 and the consolidated statements of earnings and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings and retained

LIABILITIES

| | As at December 31 | |
|--|----------------------|----------------------|
| | 1964 | 1963 |
| <i>Current Liabilities:</i> | | |
| Accounts payable - - - - - | \$ 1,384,450 | \$ 1,749,614 |
| Bond interest payable - - - - - | 1,307,039 | 1,426,642 |
| Accrued income and other taxes - - - - - | 14,619,160 | 12,538,875 |
| Bond sinking fund payments due within one year (Note 1) - - - - - | 9,264,407 | 8,114,736 |
| | <u>26,575,056</u> | <u>23,829,867</u> |
| <i>Long Term Debt</i> (Note 1) - - - - - | 90,991,535 | 100,072,822 |
| <i>Provision for Employee Retirement Benefits</i> - - - - - | 211,676 | 198,187 |
| <i>Deferred Income Taxes</i> (Note 3) - - - - - | 25,777,000 | 24,062,570 |
| <i>Deferred Investment Tax Credit</i> (Note 4) - - - - - | 1,540,865 | 1,682,430 |
| <i>Shareholders' Equity:</i> | | |
| Capital stock (Note 5)— | | |
| Authorized—\$200,000,000 divided into 40,000,000 shares, par value \$5 each | | |
| Issued—1964—5,087,282 - - - - - | 25,436,410 | |
| 1963—5,082,982 - - - - - | | 25,414,910 |
| Premium on shares - - - - - | 20,035,539 | 19,869,514 |
| Retained earnings, per accompanying statement - - - - - | 42,265,285 | 39,850,223 |
| | <u>87,737,234</u> | <u>85,134,647</u> |
| <i>Signed on Behalf of the Board:</i> | | |
|  Director | | |
|  Director | | |
| <i>The accompanying notes are part of the financial statements.</i> | <u>\$232,833,366</u> | <u>\$234,980,523</u> |

earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1964 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the consolidated statement of source and application of funds for the year ended December 31, 1964, which is presented as supplementary information and, in our opinion, the statement presents fairly the information shown therein.



EDMONTON, February 3, 1965.

Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

1. LONG TERM DEBT:

Long term debt of \$90,991,535 at December 31, 1964 comprises First Mortgage and Collateral Trust Bonds of Inter-provincial Pipe Line Company, authorized with no fixed limitation, issued and outstanding as follows:

| | Series A 3½% due January 1 1970 | Series B 3½% due January 1 1970 | Series C 4% due April 1 1973 | Series D 3⅝% due April 1 1974 | |
|--|--|--|---------------------------------------|--|------------|
| | (Canadian dollars) | (United States dollars) | | | |
| Issued - - - - - | \$37,000,000 | 35,000,000 | 60,000,000 | 30,000,000 | |
| Redeemed - - - - - | 18,500,000 | 17,500,000 | 18,832,000 | 7,998,000 | |
| Bonds outstanding - - - - - | 18,500,000 | 17,500,000 | 41,168,000 | 22,002,000 | |
| Less: | | | | | |
| Bonds purchased and held for sinking fund - - - - - | | 77,000 | | 54,000 | |
| Other sinking fund payments due within one year - - - - - | 2,312,000 | 2,111,000 | 3,000,000 | 1,362,000 | |
| | 2,312,000 | 2,188,000 | 3,000,000 | 1,416,000 | |
| Amount due after 1965 - - - - - | 16,188,000 | 15,312,000 | 38,168,000 | 20,586,000 | |
| Amount due after 1965 in terms of Canadian dollars at historical rates of exchange - - - - - | 16,188,000 | 16,919,760 | 37,699,845 | 20,183,930 | 90,991,535 |

Bond sinking fund requirements for 1966 to 1969 are as follows:

| | Series A | Series B | Series C | Series D |
|----------------|--------------------|-------------------------|-----------|-----------|
| | (Canadian dollars) | (United States dollars) | | |
| 1966 - - - - - | \$2,312,000 | 2,188,000 | 3,167,000 | 1,500,000 |
| 1967 - - - - - | 2,312,000 | 2,188,000 | 3,334,000 | 1,584,000 |
| 1968 - - - - - | 2,312,000 | 2,188,000 | 3,542,000 | 1,668,000 |
| 1969 - - - - - | 9,252,000 | 8,748,000 | 3,750,000 | 1,771,000 |

2. PROVISION FOR INCOME TAXES:

Bond interest paid to the company by the United States subsidiary is subject to a 15% withholding tax which the company claims as a foreign tax credit for Canadian income tax purposes. During 1963, the Canadian income tax authorities issued assessments for 1960 and 1961 which disallowed the greater part of the foreign tax credit claimed in respect of such withholding tax. The additional taxes demanded of \$657,000 were paid under protest.

Counsel has advised that the assessments are ill founded in law and the company has filed formal Notices of Objection thereto. If continuing negotiations with the income tax authorities prove unsatisfactory, the company proposes to appeal the assessments to the Exchequer Court of Canada.

Pending determination of the issue, it was considered prudent to continue to make full provision for income taxes involved and to pay such taxes under protest in order to avoid possible interest penalties. The total disputed taxes provided to date amount to \$1,509,000 of which \$266,000 was provided in 1964.

3. DEFERRED INCOME TAXES:

The companies' policy is to provide for depreciation of Fixed Assets on the straight line method at annual rates which will amortize the cost of depreciable properties over their estimated service lives. Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the provision recorded in the accounts of the companies. The companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferment of taxes to future years when amounts deductible for tax purposes will be less than the depreciation recorded in the accounts.

As a result, income taxes payable in respect of 1964 will be less than the amount charged to earnings by \$1,714,430. This amount is carried on the Consolidated Balance Sheet, together with similar amounts in respect of prior years, under the heading Deferred Income Taxes.

4. DEFERRED INVESTMENT TAX CREDIT:

The United States subsidiary companies are allowed a credit against income taxes payable of a specified percentage of the cost of certain depreciable assets acquired and placed in service after January 1, 1962. Since that date this investment tax credit has been applied to reduce income taxes payable, but for book purposes has been deferred and is being taken into income over the life of the related assets. Under the provisions of the Revenue Act of 1964 the investment credit no longer reduces the depreciable base of the property. The investment tax credit for assets acquired in 1964 was not significant but an amount of \$154,095 has been taken into earnings during the year as a result of amortizing the investment tax credit deferred in 1964 and prior years. The unamortized portion of the investment credit is shown on the Consolidated Balance Sheet under the heading Deferred Investment Tax Credit.

5. CAPITAL STOCK:

By-law number 23 of the company, approved at a special meeting of the shareholders July 15, 1964, provides for subdivision of each share of capital stock with a par value of \$5 into five shares with a par value of \$1 so that the authorized capital of the company shall be \$200,000,000 divided into 200,000,000 shares of par value \$1 each. This change must be sanctioned by Special Act of the Parliament of Canada. The necessary Bill has been introduced but has not yet been passed by Parliament.

The company's Incentive Stock Option Plan terminated on April 1, 1964, and all unexercised options expired on that date. During the term of the Plan options were exercised at the market price at the date of option on 47,450 shares, including 4,300 shares issued in 1964.

6. FOREIGN EXCHANGE:

United States dollar amounts included in the consolidated financial statements have been expressed in Canadian dollars on the following bases:

Current assets and liabilities, at the rate of exchange at December 31;

Other assets and liabilities, at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses, at monthly rates of exchange, except provision for depreciation which is translated on the same basis as the related fixed assets.

Losses less gains arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Loss on Foreign Exchange.

7. SALARIES OF EXECUTIVE OFFICERS, COUNSEL FEES AND DIRECTORS' FEES:

The total amount deducted on the Consolidated Statement of Earnings in respect of salaries and other remuneration paid or payable to counsel, solicitors and executive officers, including a salaried director, was \$175,439 in 1964. In addition fees paid to certain non-salaried directors amounted to \$12,800 for the year.

TEN YEAR REVIEW

FINANCIAL (in thousands of dollars)

[illegible][illegible]Working capital (deficit) - - - - -

| | | | | | | | | | |
|-------------------------------------|---|---|---|---|---|---|---|---|---|
| Capital additions to carrier system | - | - | - | - | - | - | - | - | - |
| Investment in carrier system (cost) | - | - | - | - | - | - | - | - | - |
| Investment in carrier system (net) | - | - | - | - | - | - | - | - | - |

Long term debt, less payments due within one year - - - -

| | | | | | | | | | |
|------------------------------|---|---|---|---|---|---|---|---|---|
| Number of shares outstanding | - | - | - | - | - | - | - | - | - |
| Number of shareholders | - | - | - | - | - | - | - | - | - |

OPERATING

RECEIPTS OF CRUDE OIL (in thousands of barrels)

| | | | | | | | | | |
|---------------------------|---|---|---|---|---|---|---|---|---|
| Alberta | - | - | - | - | - | - | - | - | - |
| Saskatchewan and Manitoba | - | - | - | - | - | - | - | - | - |
| United States | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | - | - | - | - |

DELIVERIES OF CRUDE OIL (*in thousands of barrels*)[illegible]

BARREL MILES (*millions*) - - - - -

| 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| \$ 74,983 | 69,999 | 66,570 | 59,227 | 55,162 | 56,097 | 49,910 | 41,930 | 42,569 | 34,402 |
| \$ 32,998 | 31,013 | 27,914 | 25,729 | 24,347 | 24,059 | 23,970 | 22,370 | 22,745 | 20,433 |
| \$ 22,783 | 21,206 | 20,977 | 17,402 | 15,335 | 16,434 | 12,844 | 9,596 | 9,650 | 6,938 |
| \$ 19,202 | 17,780 | 17,679 | 16,096 | 15,480 | 15,604 | 13,096 | 9,964 | 10,174 | 7,031 |
| \$ 3.77 | 3.50 | 3.48 | 3.17 | 3.05 | 3.08 | 2.59 | 1.97 | 2.01 | 1.40 |
| \$ 16,787 | 15,755 | 15,491 | 14,705 | 14,184 | 11,389 | 9,103 | 7,075 | 5,548 | 3,528 |
| \$ 3.30 | 3.10 | 3.05 | 2.90 | 2.80 | 2.25 | 1.80 | 1.40 | 1.10 | .70 |
| 87% | 89% | 88% | 91% | 92% | 73% | 70% | 71% | 55% | 50% |
| \$ (18,572) | (16,057) | 689 | 6,821 | 6,921 | 7,997 | 276 | 1,329 | 15,780 | 14,296 |
| \$ 7,661 | 23,453 | 12,350 | 3,057 | 5,440 | 2,667 | 11,200 | 22,853 | 9,580 | 2,872 |
| \$ 320,023 | 312,670 | 289,465 | 277,382 | 274,560 | 269,626 | 267,270 | 256,966 | 234,561 | 226,561 |
| \$ 224,125 | 226,676 | 212,805 | 209,461 | 215,324 | 218,665 | 224,700 | 222,573 | 207,684 | 206,786 |
| \$ 90,992 | 100,073 | 108,378 | 115,339 | 123,758 | 130,926 | 137,479 | 143,716 | 149,154 | 154,281 |
| 5,087,282 | 5,082,982 | 5,080,482 | 5,072,493 | 5,068,343 | 5,063,313 | 5,057,813 | 5,056,533 | 5,050,343 | 5,039,832 |
| 14,127 | 12,757 | 12,582 | 12,353 | 11,834 | 11,901 | 12,129 | 11,966 | 10,969 | 8,699 |
| 99,320 | 99,138 | 91,693 | 88,226 | 74,823 | 75,411 | 65,088 | 66,063 | 81,565 | 72,899 |
| 83,762 | 73,426 | 66,739 | 58,232 | 53,681 | 48,165 | 45,488 | 35,408 | 16,719 | 8,049 |
| 1,642 | 1,525 | 45 | — | — | — | — | — | — | — |
| 184,724 | 174,089 | 158,477 | 146,458 | 128,504 | 123,576 | 110,576 | 101,471 | 98,284 | 80,948 |
| 33,055 | 32,184 | 32,715 | 32,257 | 34,236 | 32,705 | 29,512 | 33,751 | 33,733 | 34,306 |
| 46,885 | 41,794 | 39,040 | 33,303 | 23,018 | 20,353 | 21,327 | 20,664 | 16,868 | 5,270 |
| — | 939 | 1,259 | 1,220 | 923 | — | 1,748 | 4,119 | 5,662 | 7,044 |
| 104,515 | 96,845 | 84,843 | 79,153 | 69,729 | 69,864 | 56,912 | 41,362 | 40,479 | 33,948 |
| 184,455 | 171,762 | 157,857 | 145,933 | 127,906 | 122,922 | 109,499 | 99,896 | 96,742 | 80,568 |
| 221,691 | 207,724 | 186,562 | 170,468 | 137,483 | 135,569 | 113,997 | 94,994 | 100,486 | 81,041 |

